

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 EB-07 SSO-00 NSCE-00 USIE-00

INRE-00 AID-05 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 PRS-01 PA-01

NEA-10 EA-07 IO-13 AGR-05 /116 W
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TO SECSTATE WASHDC IMMEDIATE 8872

DEPT OF TREASURY WASHDC IMMEDIATE

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L ROME 11425

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJ: PALUMBO VIEWS ON EXTENSION OF PRIOR DEPOSIT PROGRAM
AND PROGRESS ON ECONOMIC PROGRAM

PASS FRB AND TREASURY FOR F. LISLE WIDMAN

REF: ROME 11428

1. ACTING TREASATT MET WITH DR. SILVANO PALUMBO,
DIRECTOR GENERAL TREASMIN, JULY 15 TO DISCUSS EXTENSION
OF PRIOR DEPOSIT PROGRAM AND PROGRESS ON FORMULATING
OVERALL GOVERNMENT ECONOMIC PROGRAM. (REFTEL REPORTS
SIMULTANEOUS CONVERSATION FIRST SUBJECT MINISTRY
FOREIGN AFFAIRS.) DECISION TO EXTEND PRIOR DEPOSIT
PROGRAM WAS TAKEN, ACCORDING TO PALUMBO, NEARLY A
MONTH AGO. PRESS SPECULATION OF SUCH AN EXTENSION
DURING THE LAST FEW WEEKS WAS ENCOURAGED BY THE GOI
IN ORDER TO AVOID "SURPRISING ANYONE." THE EX-
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TENSION OF THIS PROGRAM WILL BE MADE OFFICIAL ON JULY

21 OR 22 (I.E., DATE OF MINISTERIAL DECREE) IMMEDIATELY FOLLOWING EXPECTED JULY 21 EC COMMISSION APPROVAL. PALUMBO WAS HOPEFUL THAT IMF BLESSING COULD BE OBTAINED PRIOR TO THESE DATES, BUT HE THOUGHT THIS SOMEWHAT UNLIKELY. HE ENCOURAGED, IF AT ALL POSSIBLE, USG TO PRESS FOR EARLY FUND CONSIDERATION AND FAVORABLE ACTION ON THIS MATTER.

2. IN REPLY TO QUESTION CONCERNING ALLEGED FRENCH CONDITIONS TIED TO THEIR ASSENT TO EXTENSION OF PRIOR DEPOSIT PROGRAM, PALUMBO SAID THAT SUCH OBJECTIONS HAD BEEN SMOOTHED OVER (OR SO HE HOPED) AND THAT EC APPROVAL ON 21ST VIRTUALLY ASSURED. PALUMBO INDICATED THAT FRENCH OBJECTIONS STIMULATED AS MUCH BY ITALIAN AGRICULTURAL INTERESTS AS BY FRENCH AGRICULTURAL INTERESTS AND THAT "AGRICULTURAL CONFRATERNITY" ALWAYS ADEPT AT RAISING ITS PARTICULAR VOICE ABOVE DIN OF OTHER DEMANDS. REGARDING PRESS SPECULATION THAT PERCENTAGE AMOUNT OF PRIOR DEPOSIT REQUIRED MIGHT BE REDUCED FROM 50 PERCENT TO 35 PERCENT, PALUMBO REITERATED THAT PROGRAM AS IT NOW STANDS WILL BE SIMPLY EXTENDED FOR THREE-MONTH PERIOD WITHOUT ANY "SIGNIFICANT" MODIFICATIONS.

3. PALUMBO SAID THAT MINISTER COLOMBO WAS CONCERNED ABOUT PRESS REPORT IN 24 ORE OF JULY 15 THAT "WHITE HOUSE SPOKESMAN" HAD ANNOUNCED THAT EXTENSION OF ITALIAN PRIOR DEPOSIT PROGRAM UNFORTUNATE AND THAT GOI ACTION THREATENS INTERNATIONAL COMMERCE. PALUMBO ADDED THAT SOURCE, THAT IS, WHITE HOUSE, IS OF SOMEWHAT MORE CONCERN THAN CRITICISM. ANY CLARIFICATION OF REPORTED WHITE HOUSE STATEMENT PALUMBO SAID WOULD BE APPRECIATED.

4. IN REVIEWING EFFECTS OF PRIOR DEPOSIT PROGRAM, PALUMBO ACCENTUATED THE POSITIVE IMPACT OF PROGRAM ON BALANCE OF PAYMENTS AND CORRESPONDING COST TO ITALY IN TERMS OF DECELERATING ECONOMIC RECOVERY. PALUMBO FELT THAT GIVEN EXTENSION OF PROGRAM FOR AN ADDITIONAL THREE MONTHS, SOME "IMPORTANT" REDUCTION IN ECONOMIC

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GROWTH WOULD RESULT BUT THAT BENEFIT ON BALANCE OF PAYMENTS AND LIRA SIDE COMPENSATING. (PALUMBO CONTINUED TO FEEL THAT 25 PERCENT INFLATION ESTIMATE FOR THE YEAR APPROPRIATE.)

5. REGARDING FORMULATION OF GOVERNMENT ECONOMIC PROGRAM, PALUMBO SAID THAT ALL TECHNICAL DETAILS HAD BEEN IRONED OUT BUT THAT NO BASIC DECISIONS ON ANY OF THE

TOUGH AREAS--E.G., INCOMES POLICY, THE COST OF
LIVING ADJUSTERS, BUDGET DEFICITS, AND TAX EVASION--
HAD YET BEEN TAKEN. PALUMBO DECLINED TO RESPOND TO
QUERY CONCERNING TIMING OF RELEASE OF PROGRAM OR
ULTIMATE CONTENT. EMBASSY COMMENT: COMPREHENSIVE
LISTING OF POSSIBLE TECHNICAL MEASURES AVAILABLE TO GOI,
WHICH PALUMBO ASSERTS HAVE BEEN FINISHED, FAR CRY
FROM POLICY FORMULATION AND IMPLEMENTATION.
GOVERNMENT ECONOMIC PROGRAM NOT YET AT HAND.VOLPE

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